

## **KHALEEJI COMMERCIAL BANK BSC**

### **RISK MANAGEMENT DISCLOSURES**

*(based on Basel 2 and IFSB guidelines)*

**30 June 2011**

*These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book, Volume II for Islamic Banks. These disclosures should be read in conjunction with the detailed risk management disclosures made in the annual report for the year ended 31 December 2010, and the Interim financial information for the six months ended 30 June 2011*

# **Khaleeji Commercial Bank BSC**

## **Risk and Capital Management Disclosures**

---

### **TABLE OF CONTENTS**

Executive Summary	3
1 Group Structure	4
2 Capital Management and Capital Adequacy ratio	4
2.1 Capital management	4
2.2 Capital Structure, minimum capital requirements and capital adequacy	4
3 Credit Risk	6
3.1 Levels of Exposure	6
3.2 Concentration of credit risk	7
3.2.1 Geographic distribution	7
3.2.2 Industry/ sector wise distribution of exposure	8
3.2.3 Transactions with related counterparties	8
3.2.4 Exposures in excess of 15% of capital base	9
3.2.5 Exposures in highly leveraged counterparties	9
3.2.6 Residual contractual maturity of the credit portfolio and investment in sukuk	10
3.3 Equity risk in banking book	10
3.4 Past dues, impaired accounts, provisions	11
3.5 Geographical and sector-wise break-up of impairment allowances and impaired/past due accounts	12
3.6 Renegotiated facilities	13
3.7 Legal Action and Write off of exposures	13
3.8 Penalties for Delayed Payments	14
3.9 Credit Risk Mitigation	14
3.10 Regulatory Capital Requirements by type of Islamic financing contracts	15
4 Market Risk	15
4.1 Regulatory Capital Allocation against Market Rate Risk	15
5 Operational Risk	16
5.1 Regulatory Capital Allocation against Operational Risk	16
6 Other risks	17
6.1 Liquidity Risk	17
6.2 Profit rate risk in the banking book	19
6.3 Displaced commercial risk	20
6.4 Other risks	20
7 Equity of investment account holders (IAHs)	20
7.1 Restricted Investment Accounts (RIAs)	22

## **Khaleeji Commercial Bank BSC**

### **Risk and Capital Management Disclosures**

---

#### **Executive Summary**

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports of the CBB Rule Book, Volume II for Islamic Banks and Section PD-3.1.6: Publication of reviewed (Unaudited) quarterly financial statements for locally incorporated banks. Section PD-1.3 reflect the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks and PD 3.1.6 highlights the requirement to make quantitative disclosures described in PD-1.3 on their web site along with the half yearly financial statements.

All figures presented in this section are reported in BD thousands and are as of 30 June 2011 unless otherwise stated.

Khaleeji Commercial Bank BSC (the "Bank") has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk to determine its capital requirements. This section contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on risk components and capital adequacy.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 2 framework.

The Banks total risk weighted assets as at 30 June 2011 amounted to BD 425,411 thousand. Credit risk accounted for 84 per cent, operational risk 14 per cent, and market risk 2 per cent of the total risk weighted assets. Tier I and total regulatory capital were BD 116,116 thousand and BD 117,420 thousand respectively as at 30 June 2011.

At 30 June 2011, Bank's Tier I and total adequacy ratios were 27.30 per cent and 27.60 per cent respectively.

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

---

**1 Group Structure**

The Bank operates under a retail banking license granted by the Central Bank of Bahrain (“CBB”) on 20 October 2003. The Bank does not have significant operating subsidiaries. The subsidiaries set-up are primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB capital computation guidelines and are risk weighted as investments for capital adequacy purposes.

**2 Capital Management and Capital Adequacy ratio**

**2.1 Capital management**

The Bank’s policy is to maintain a strong capital base to develop and retain investor, creditor and market confidence and to sustain business growth. The Bank recognizes the impact of a high level of capital on shareholders’ returns, while not losing sight of the security and market confidence afforded by a sound capital base. The Bank aims to maintain a minimum total capital adequacy ratio significantly in excess of that mandated by the CBB.

**2.2 Capital Structure, minimum capital requirements and capital adequacy**

Following is the break-up of capital structure as at 30 June 2011:

BD 000’s

<b>Net available capital</b>	<b>30 June 2011</b>
Issued and fully paid ordinary shares	115,416
Less: Treasury shares	(6,072)
Statutory reserve	6,298
Share premium	1,213
Others reserves	(559)
Retained earning	1,495
Current interim cumulative net losses	(1,675)
<b>Tier 1 capital</b>	<b>116,116</b>
Eligible portion of unrealised gains arising from fair valuing equities	1,304
Profit equalisation reserve	-
Investment risk reserve	-
<b>Tier 2 capital</b>	<b>1,304</b>
<b>Net available capital</b>	<b>117,420</b>

	<b>30 June 2011</b>
Credit risk weight exposures	357,134
Market risk weight exposures	9,638
Operational risk weight exposures	58,639
<b>Total risk weighted assets</b>	<b>425,411</b>

## Khaleeji Commercial Bank BSC

### Risk and Capital Management Disclosures

<b>Capital adequacy ratio ( Tier 1 )</b>	<b>27.30%</b>
<b>Capital adequacy ratio ( Total capital)</b>	<b>27.60%</b>

The above capital adequacy ratios are calculated by dividing the respective regulatory capital base by the total Risk Weighted Assets (RWAs).

Break up of capital requirement in accordance with the Capital Adequacy Module of the CBB for the period ended 30 June 2011:

BD 000's

Exposure classification	Exposure			Risk weighted assets*			Capital requirement @ 12%		
	Self – Financed	IAH	Total	Self – Financed	IAH	Total	Self – Financed	IAH	Total
Cash and collection items	1,306	-	1,306	-	-	-	-	-	-
Sovereigns	2,989	21,079	24,068	-	-	-	-	-	-
Banks	2,886	59,496	62,382	626	4,039	4,665	75	485	560
Corporates	83,566	91,103	174,669	83,566	27,331	110,897	10,028	3,280	13,308
Regulatory retail portfolio	3,074	-	3,074	2,306	-	2,306	277	-	277
Residential mortgage eligible for 75% RW	3,902	-	3,902	2,927	-	2,927	351	-	351
Past due facilities	25,952	-	25,952	32,356	-	32,356	3,883	-	3,883
Investments in equities/sukuk	24,417	10,546	34,963	36,492	4,746	41,238	4,379	570	4,949
Holdings of real estate	82,857	-	82,857	158,999	-	158,999	19,080	-	19,080
Other assets	3,748	-	3,748	3,748	-	3,748	450	-	450
<b>Credit Risk</b>	<b>234,697</b>	<b>182,224</b>	<b>416,921</b>	<b>321,020</b>	<b>36,116</b>	<b>357,136</b>	<b>38,523</b>	<b>4,335</b>	<b>42,858</b>
<b>Market Risk</b>	-	-	-	-	-	<b>9,638</b>	-	-	<b>1,157</b>
<b>Operational Risk</b>	-	-	-	-	-	<b>58,639</b>	-	-	<b>7,037</b>
<b>Total</b>	<b>234,697</b>	<b>182,224</b>	<b>416,921</b>	<b>321,020</b>	<b>36,116</b>	<b>425,413</b>	<b>38,523</b>	<b>4,335</b>	<b>51,052</b>

\*For capital adequacy computations, 100% of the RWAs is reckoned for self-financed assets while only 30 % is considered for assets funded through equity of investment account holders (IAH).

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

**3 Credit Risk**

**3.1 Levels of Exposure**

Gross credit exposure along with average credit exposure broken down under different exposure classes as at 30 June 2011 is as follows:

BD'000

	Average <sup>[1]</sup> Exposure	Gross Exposure		
		Self – Financed	IAH	Total
Cash and Bank Balances	21,208	6,045	8,295	14,340
Placement with Banks/FIs	47,438	-	59,496	59,496
Financing Assets	200,125	103,676	96,877	200,553
Investments in equity securities	86,179	89,655	-	89,655
Assets Acquired for Leasing(including ijarah rental receivable)	9,042	9,120	-	9,120
Investment in Sukuks	15,831	-	17,556	17,556
Investments in Associates	3,752	3,360	-	3,360
Assets held for sale	6,583	6,583	-	6,583
Property, plant and equipment	-	9,721	-	9,721
Other assets	2,070	2,103	-	2,103
<b>Total On Balance Sheet Credit Exposure</b>	<b>392,228</b>	<b>230,263</b>	<b>182,224</b>	<b>412,487</b>
Undrawn commitments to extend finance	8,746	9,433	-	9,433
Commitments to invest	6,635	5,655	-	5,655
Financial guarantees	6,291	7,082	-	7,082
<b>Total Off Balance Sheet Credit Exposure</b>	<b>21,672</b>	<b>22,170</b>	<b>-</b>	<b>22,170</b>

<sup>[1]</sup> Represents quarterly average balances for the six months period ended 30 June 2011.

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

**3.2 Concentration of credit risk**

**3.2.1 Geographic distribution**

The geographical exposure profile as at 30 June 2011 was as follows:

BD 000's

	<b>GCC Countries</b>	<b>Europe</b>	<b>USA</b>	<b>Asia</b>	<b>Australia</b>	<b>Africa</b>	<b>Total</b>
<b>Assets</b>							
Cash and Bank balances	13,259	226	826	29	-	-	14,340
Placement with financial institutions	44,215	15,281	-	-	-	-	59,496
Financing assets	190,365	9,537	651	-	-	-	200,553
Investment securities	73,672	2,927	-	24,458	4,685	1,470	107,212
Assets acquired for leasing	9,120	-	-	-	-	-	9,120
Investment in associates	3,360	-	-	-	-	-	3,360
Investment properties	6,583	-	-	-	-	-	6,583
Other assets	1,890	16	-	159	37	-	2,102
Property and Equipment	9,721	-	-	-	-	-	9,721
<b>Total funded exposures (BD '000's)</b>	<b>352,185</b>	<b>27,987</b>	<b>1,477</b>	<b>26,646</b>	<b>4,722</b>	<b>1,470</b>	<b>412,487</b>
Undrawn commitments to extend finance	8,867	566	-	-	-	-	9,433
Commitments to invest	5,655						5,655
Financial guarantees	4,213	-	-	-	-	-	4,213
<b>Total unfunded exposures</b>	<b>18,735</b>	<b>566</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,301</b>

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

**3.2.2 Industry/ sector wise distribution of exposure**

The industry sector wise exposure as at 30 June 2011 was as follows:

BD 000's

30 June 2011	Banks and Financial Institutions	Real Estate	Others	Total
<b>Assets</b>				
Cash and Bank Balances	14,340	-	-	14,340
Placements with financial institutions	59,496	-	-	59,496
Financing assets	16,079	96,855	87,619	200,553
Investments securities	23,461	64,224	19,527	107,212
Assets acquired for leasing	2,253	6,545	322	9,120
Investment in associates	-	3,360	-	3,360
Investment properties	-	6,583	-	6,583
Other assets	395	961	746	2,102
Property and Equipment	-	6,715	3,006	9,721
<b>Total funded exposure (BD '000's)</b>	<b>116,024</b>	<b>185,243</b>	<b>111,220</b>	<b>412,487</b>
Undrawn commitments to extend finance	-	4,200	5,233	9,433
Commitments to invest	5,655	-	-	5,655
Financial guarantees	-	2,890	1,323	4,213
<b>Total unfunded exposures</b>	<b>5,655</b>	<b>7,090</b>	<b>6,556</b>	<b>19,301</b>

**3.2.3 Transactions with related counterparties**

Related counterparties are those entities which are related to the Bank through significant shareholding or control or both. Wherever the Bank has entered into business transactions with such counterparties, such transactions have been done at an arm's length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related counterparties the Bank strictly follows the guidelines issued by Central Bank of Bahrain for the purpose.



## Khaleeji Commercial Bank BSC

### Risk and Capital Management Disclosures

---

Transactions with related parties during the six months period ended 30 June 2011 and balances outstanding pertaining to related parties as at 30 June 2011 is as follows:

	BD 000's
<b>Transactions</b>	<b>30 June 2011</b>
Placement, management and arrangement fees	535
Income from financing assets and assets acquired on leasing	430
Income from investment securities	261
Share of losses from associate companies	(753)
Financing expenses	40
Return to investment account holders	646
Other expenses	11
<b>Balances</b>	<b>30 June 2011</b>
Investment securities	47,825
Financing assets	14,587
Investment in associates	3,360
Other assets	909
Customers' current accounts	1,008
Equity of investment account holders	27,090
Placements from financial institutions and others	9,819

#### **3.2.4 Exposures in excess of 15% of capital base**

Single exposures in excess of 15 % of the Bank's capital base on individual counterparties require prior approval of CBB except where exempted under para CM 4.5 of the rule book. The Bank does not have any such large exposures.

#### **3.2.5 Exposures in highly leveraged counterparties**

The Bank has no financing exposures to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

**3.2.6 Residual contractual maturity of the credit portfolio and investment in sukuk**

The Bank's policy allows exposures up to a maximum period of 7 years (other than retail / mortgage loans) with any exception to be approved by the Board of Directors. However, most of the Bank's exposures are limited to an original maturity of 5 years. The Bank constantly monitors the residual maturity profile of its assets to ensure that any mismatch with the maturity of its liabilities is kept within acceptable limits. The contractual residual maturity profile by type of financing contract of the Bank's credit portfolio and investment in sukuk is given in the table below.

BD 000's

<b>Maturity Scale</b>	<b>&lt; 1 M</b>	<b>1 - 3 M</b>	<b>3 - 6 M</b>	<b>6M - 1 Y</b>	<b>1 - 3 Y</b>	<b>&gt; 3 Y</b>	<b>Total</b>
<b>Credit Portfolio*</b>							
Murabaha	6,883	2,821	4,822	19,953	66,180	44,558	<b>145,217</b>
Musharaka	3,170	-	1,739	-	13,950	10,554	<b>29,413</b>
Wakala	3,406	3,422	4,546	-	241	13,544	<b>25,159</b>
Istisna	-	-	-	-	-	924	<b>924</b>
Ijarah	-	162	-	-	-	8,798	<b>8,960</b>
<b>Total</b>	<b>13,459</b>	<b>6,405</b>	<b>11,107</b>	<b>19,953</b>	<b>80,371</b>	<b>78,378</b>	<b>209,673</b>
Investments in sukuk	-	2,107	6,175	3,054	3,845	2,375	<b>17,556</b>
<b>Total</b>	<b>-</b>	<b>2,107</b>	<b>6,175</b>	<b>3,054</b>	<b>3,845</b>	<b>2,375</b>	<b>17,556</b>
<b>Grand Total</b>	<b>13,459</b>	<b>8,512</b>	<b>17,282</b>	<b>23,007</b>	<b>84,216</b>	<b>80,753</b>	<b>227,229</b>

\* Credit Portfolio includes financing assets, assets acquired for leasing and lease rental receivable

**3.3 Equity risk in banking book**

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework.

BD 000's

<b>Information on equity investments</b>	
Privately held	92,748
Quoted in an active market	267
Realised gain/ (loss) during the period	-
Unrealised gain/ (loss) in equity (Tier 2)	1,304

## Khaleeji Commercial Bank BSC Risk and Capital Management Disclosures

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

BD 000's

Equity investments in banking book	Gross exposure		Risk weighted exposure		Capital charge	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Quoted equity investment	267	-	267	-	32	-
Unquoted equity investment	24,150	-	36,225	-	4,347	-
Investments in managed funds	-	-	-	-	-	-
Real estate investments	68,598	-	137,196	-	16,463	-
<b>Total</b>	<b>93,015</b>	<b>-</b>	<b>173,688</b>	<b>-</b>	<b>20,842</b>	<b>-</b>

### 3.4 Past dues, impaired accounts, provisions

Exposure which were past due or impaired as of 30 June 2011:

BD 000's

	Placements with Financial Institutions	Financing Assets	Assets acquired for Leasing (including lease rental receivables)	Investment Securities - Sukuks	Other Assets	Total
30-Jun-11						
<b>Impaired</b>						
Grade 9: Impaired	-	39,456	1,944	-	-	<b>41,400</b>
Unrated	-	-	-	-	773	<b>773</b>
Gross amount	-	39,456	1,944	-	773	<b>42,173</b>
Allowance for impairment	-	(15,540)	-	-	(773)	<b>(16,313)</b>
Carrying amount	-	<b>23,916</b>	<b>1,944</b>	-	-	<b>25,860</b>
<b>Past due but not impaired</b>						
Grade 1-6: Low-fair risk	-	18,335	613	-	-	<b>18,948</b>
Grade 7,8: Watch list	-	14,893	-	-	-	<b>14,893</b>
Unrated	-	-	-	-	-	-
Carrying amount	-	<b>33,228</b>	<b>613</b>	-	-	<b>33,841</b>
<i>Past due</i>						

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

<i>comprises:</i>						
Less than 30 days	-	19,620	613	-	-	<b>20,233</b>
30-60 days	-	6,197	-	-	-	<b>6,197</b>
60-90 days	-	7,411	-	-	-	<b>7,411</b>
Carrying amount	-	<b>33,228</b>	<b>613</b>	-	-	<b>33,841</b>
<b>Neither past due nor impaired</b>						
Grade 1-6: Low-fair risk	59,496	117,912	6,536	17,608	0	<b>201,552</b>
Grade 7,8: Watch list	-	27,204	162	-	-	<b>27,366</b>
Unrated	-	-	-	-	2,103	<b>2,103</b>
Carrying amount	<b>59,496</b>	<b>145,116</b>	<b>6,698</b>	<b>17,608</b>	<b>2,103</b>	<b>231,021</b>
<b>Less : General Provisioning</b>		(1,707)	(136)	(52)		<b>(1,895)</b>
Total carrying amount	<b>59,496</b>	<b>200,553</b>	<b>9,119</b>	<b>17,556</b>	<b>2,103</b>	<b>288,827</b>

**3.5 Geographical and sector-wise break-up of impairment allowances and impaired/past due accounts**

	BD 000's						
	<b>GCC countries</b>	<b>Europe</b>	<b>USA</b>	<b>Asia</b>	<b>Australia</b>	<b>Africa</b>	<b>Total</b>
Impaired	35,575	-	6,598	-	-	-	42,173
Allowance for impairment	(10,367)	-	(5,946)	-	-	-	(16,313)
Carrying amount	25,208	-	652	-	-	-	25,860
Past due but not impaired	33,841	-	-	-	-	-	33,841
Collective impairment	(1,791)	(79)	(5)	(8)	-	(12)	(1,895)

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

BD 000's

	<b>Banks and financial institutions</b>	<b>Real estate</b>	<b>Others</b>	<b>Total</b>
Impaired	-	31,101	11,072	42,173
Allowance for impairment	-	(11,136)	(5,177)	(16,313)
Carrying amount	-	19,965	5,895	25,860
Past due but not impaired comprises:				
Less than 30 days	2,510	14,290	3,433	20,233
30-60 days	-	5,213	984	6,197
60-90 days	1,739	5,672	-	7,411
Carrying amount	4,249	25,175	4,417	33,841
Collective impairment	(155)	(1,037)	(703)	(1,895)

**3.6 Renegotiated facilities**

Exposures classified as neither past due nor impaired financing facilities include facilities renegotiated during the period ended 30 June 2011 amounting to BD 12,605 thousand that otherwise might have become past due in future as per their original repayment terms. The renegotiated terms usually require settlement of profits accrued till date on the facility and / or part of the principal and / or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD.

**3.7 Legal Action and Write off of exposures**

The Bank has policies for initiation and prosecution of legal action when all amicable avenues for settlement of dues from a customer have been exhausted. The Bank has, as of date, been involved in three litigations under its investment and commercial banking divisions.

Under its investment division, the Bank is involved in two litigations, one action initiated against Amlak II (the Bank's SPC) by a third party with a claim amounting BD 5,653,460.

The Bank (Janayen Company) had initiated a litigation involving a claim of AED 6, 804,000. A decision has been reached with the Rent Committee in Dubai ordering the defendant to pay the Bank the claimed rent.

Under its commercial banking division, the bank had previously sent notices to several clients and has since initiated litigations against one of its clients in Kuwait involving a claim amounting to US\$ 8,969,016.67 (KD 2, 593,391.170).

The Bank has a policy that permits write off of exposures when there is no possibility of recovery of the dues through legal and other means.

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

**3.8 Penalties for Delayed Payments**

In cases where customers delay the payments of dues to the Bank, the Bank has the right to collect penalties, subject to the provisions of the agreement between the customer and the Bank. As per policy, such penalties are maintained in a separate account and used for charity purposes approved by the Bank's Shari'a Board.

The Bank has a policy of creating a contribution for Charity fund for any non-Islamic income earned. During the six months period ended 30 June 2011 there hasn't been any non-Islamic income earned.

**3.9 Credit Risk Mitigation**

The position of collateral cover for all credit exposures categorised on the basis of the type of security as on 30<sup>th</sup> June 2011 is given in the table below.

BD 000's

Collateral Type	Murabaha	Musharaka	Wakala	Istisna'a	Ijara	Market Value of Collateral (1)	Gross Exposure (2)	% of cover
Real Estate	181,267	42,388	8,024	2,649	15,415	249,743	134,705	185%
Listed Securities	1,061	2,572	-	-	-	3,633	5,191	70%
Unlisted Securities	4,659	-	-	-	-	4,659	6,426	73%
Bank Guarantee	13,310	-	-	-	-	13,310	12,244	109%
Cash Collateral	4,191	-	327	-	-	4,518	13,975	32%
Unsecured	-	-	-	-	-	-	45,403	0%
Others	2,510	1,716	5,639	-	10,188	20,053	9,437	213%
<b>Total</b>	<b>206,998</b>	<b>46,676</b>	<b>13,990</b>	<b>2,649</b>	<b>25,603</b>	<b>295,916</b>	<b>227,381</b>	<b>130%</b>

<sup>[1]</sup> (Represents the last valuation carried out based on the Bank's valuation policy)

<sup>[2]</sup> (Excludes collective provisions of BD 1,895 thousand)

The Bank does not carry out any on balance sheet or off balance sheet netting for the securities held. The Bank has not claimed any capital relief for Credit Risk Mitigation under Section CA 4 of the Capital Adequacy module of CBB rule book and hence all exposures are risk weighted at their gross values.

The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities. During the six months period ended 30 June 2011 there has been no such instance.

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

**3.10 Regulatory Capital Requirements by type of Islamic financing contracts**

BD 000's

Islamic financing contracts	Exposures		Credit Risk Weighted Assets		Capital requirement @ 12%	
	Self	IAH	Self	IAH	Self	IAH
Murabaha	74,357	70,803	74,357	21,241	8,923	2,549
Ijarah assets (including lease rental receivables)	9,120	-	8,144	-	977	-
Mudaraba	-	-	-	-	-	-
Musharaka	29,319	-	29,319	-	3,518	-
Wakala	-	25,159	-	7,548	-	906
Istisna'a	-	915	-	275	-	33
<b>Total</b>	<b>112,796</b>	<b>96,877</b>	<b>111,820</b>	<b>29,064</b>	<b>13,418</b>	<b>3,488</b>

**4 Market Risk**

**4.1 Regulatory Capital Allocation against Market Rate Risk**

Table below shows the market risk position for each category of the market risk as at 30 June 2011 along with the maximum and minimum values during the six month period:

BHD 000's

	As at 30 June	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk	-	-	-
Foreign exchange risk	771	773	771
Commodity risk	-	-	-
<b>Total</b>	<b>771</b>	<b>773</b>	<b>771</b>
Risk weighted assets (A x 12.5)	9,638	9,663	9,638
Capital requirement @ 12%	1,157	1,160	1,157

## Khaleeji Commercial Bank BSC Risk and Capital Management Disclosures

---

### 5 Operational Risk

#### **5.1 Regulatory Capital Allocation against Operational Risk**

The Bank uses the Basic Indicator Approach (BIA) in calculating its regulatory capital requirement for operational risk.

The risk weighted assets and capital requirement for operational risk as at 30 June 2011 is as given below:

BD 000's

Average gross income for 3 years (A)	31,274
Operational Risk Weighted Assets B = (A * 15%*12.5)	58,639
Capital requirement (B * 12%)	7,037



**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

---

**6 Other risks**

**6.1 Liquidity Risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to managing liquidity is to ensure, that it will always have sufficient funds to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

Maturity profile of assets and liabilities as at 30 June 2011 is as follows:

BD 000's

<b>30 June 2011</b>	<b>Up to 3 months</b>	<b>3 to 6 months</b>	<b>6 months-1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and bank balances	14,340	-	-	-	-	<b>14,340</b>
Placements with financial institutions	59,496	-	-	-	-	<b>59,496</b>
Financing assets	32,354	22,080	19,835	80,466	45,818	<b>200,553</b>
Investment securities	2,108	6,175	18,636	3,845	76,448	<b>107,212</b>
Assets acquired for leasing (including lease rental receivables)	2,402	2,253	565	-	3,900	<b>9,120</b>
Investment in associates	-	-	-	-	3,360	<b>3,360</b>
Investment properties	-	-	-	-	6,583	<b>6,583</b>
Other assets	2,102	-	-	-	-	<b>2,102</b>
Property and equipment	-	-	-	-	9,721	<b>9,721</b>
<b>Total assets</b>	<b>112,802</b>	<b>30,508</b>	<b>39,036</b>	<b>84,311</b>	<b>145,830</b>	<b>412,487</b>

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

<b>Liabilities</b>						
Placements with financial institutions and others	74,296	2,709	9,212	739	361	<b>87,317</b>
Customer current account	17,119	-	-	-	-	<b>17,119</b>
Other liabilities	-	-	-	6,818	-	<b>6,818</b>
<b>Total liabilities</b>	<b>91,415</b>	<b>2,709</b>	<b>9,212</b>	<b>7,557</b>	<b>361</b>	<b>111,254</b>
<b>Equity of Investment Account Holders</b>	<b>133,282</b>	<b>19,877</b>	<b>28,425</b>	<b>640</b>	<b>-</b>	<b>182,224</b>
<b>Restricted Investment accounts</b>	<b>-</b>	<b>-</b>	<b>36,433</b>	<b>1,293</b>	<b>-</b>	<b>37,726</b>
<b>Commitments</b>	<b>5,090</b>	<b>4,682</b>	<b>3,849</b>	<b>5,680</b>	<b>-</b>	<b>19,301</b>

The following are the key liquidity ratios which reflect the liquidity position of the Bank:

	<b>Figures in %</b>
	<b>30 June 10</b>
Interbank assets to interbank liabilities	101.35
Liquid assets to total assets	18.91
Liquid assets to total deposits	36.47
Net liquid assets to total deposits	6.01

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

**6.2 Profit rate risk in the banking book**

A summary of the Bank's profit rate gap position at 30 June 2011 is as follows:

BD 000's

30 June 2011

	<b>Up to 3 months</b>	<b>3 - 6 months</b>	<b>6 months - 1 year</b>	<b>1 - 3 years</b>	<b>More than 3 years</b>	<b>Total</b>
<b>Assets</b>						
Placements with financial institutions	59,496	-	-	-	-	59,496
Financing assets	32,354	22,080	19,835	80,466	45,818	200,553
Assets acquired for leasing (including lease rental receivables)	2,402	2,253	565	-	3,900	9,120
Investments securities (sukuks)	10,670	4,525	-	943	1,418	17,556
<b>Total profit rate sensitive assets</b>	<b>104,922</b>	<b>28,858</b>	<b>20,400</b>	<b>81,409</b>	<b>51,136</b>	<b>286,725</b>
<b>Liabilities</b>						
Placements from financial institutions and others	74,296	2,709	9,212	739	361	87,317
Investors funds	561	-	-	-	-	561
Equity of investment account holders	133,282	19,877	28,425	640	-	182,224
<b>Total profit rate sensitive liabilities</b>	<b>208,139</b>	<b>22,586</b>	<b>37,637</b>	<b>1,379</b>	<b>361</b>	<b>270,102</b>
<b>Profit rate gap</b>	<b>(103,217)</b>	<b>6,272</b>	<b>(17,237)</b>	<b>80,030</b>	<b>50,775</b>	<b>16,623</b>

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios.

An analysis of the Bank's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

At 31 June 2011  
 At 31 December 2010

<b>50 bp increase/ decrease</b>	<b>100 bp parallel increase/ decrease</b>
± 86	± 172
± 98	± 196

## Khaleeji Commercial Bank BSC Risk and Capital Management Disclosures

### 6.3 Displaced commercial risk

Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by Unrestricted Investment Accounts. This can be due to the return on such assets being lower than that of competitors. The Bank has adequate policies and procedures in place to identify, monitor and address all potential risks that may arise from such activities. Please refer to the section on IAH for further details.

### 6.4 Other risks

Other risks include strategic risk, fiduciary risks, regulatory risks etc. which are inherent in all business and are not easily measurable or quantifiable. The Bank's Board has overall responsibility for approving and reviewing the risk strategies and amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board. The management also ensures that internal systems of corporate governance and regulatory compliance for management of fiduciary and reputational risks are robust and effective. The Bank also allocates additional capital for such risks under its ICAAP.

## 7 Equity of investment account holders (IAHs)

The detail of income distribution to IAH holders is given below.

	BD 000's				
	30 June 2011	2010	2009	2008	2007
Allocated Income to IAH	4,454	8,254	11,103	8,953	3,012
Distributed Profit	3,211	5,785	9,331	7,050	2,446
Mudarib Fees	1,243	2,469	1,772	1,903	566
<b>As at period end</b>					
IAH <sup>[1]</sup>	183,263	192,439	184,394	128,814	38,405
Profit Equalisation Reserve (PER)	-	169	1,209	649	206
Investment Risk Reserve (IRR)	-	-	925	473	134
Profit Equalisation Reserve-to-IAH	-	0.09%	0.66%	0.50%	0.54%
Investment Risk Reserve-to-IAH	-	-	0.50%	0.37%	0.35%

<sup>[1]</sup> Represents average balance

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

**Ratio of profit distributed to PSIA by type of IAH (based on tenor)**

BD 000's

Tenor	Profit distribution amount in BD					Ratio of profit paid as a percentage of total				
	30 June 2011	2010	2009	2008	2007	30 June 2011	2010	2009	2008	2007
1 Month Mudaraba <sup>[2]</sup>	941	3,107	4,271	3,346	1,576	29.3	53.7	45.8	47.5	64.4
3 Months Mudaraba	882	1,843	1,443	1,314	148	27.5	31.9	15.5	18.6	6.1
6 Months Mudaraba	383	641	736	373	71	11.9	11.1	7.9	5.3	2.9
12 Months Mudaraba	871	1,452	1,196	690	106	27.1	25.1	12.8	9.8	4.3
VIP Mudaraba	303	729	673	545	309	9.4	12.6	7.2	7.7	12.6
PER and IRR expenses	-	22	1,012	782	236	-	0.4	10.8	11.1	9.7
Utilization of IRR	(169)	(2,009)	-	-	-	(5.2)	(34.8)	-	-	-
<b>Total</b>	<b>3,211</b>	<b>5,785</b>	<b>9,331</b>	<b>7,050</b>	<b>2,446</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>[2]</sup> Includes saving account products.

**Distribution of profits by type of IAH products:**

(Annualised rates)

Year	Avg. profit earned from IAH assets (%age of asset)	PER set aside as a %age of IAH assets	IRR set aside as a %age of IAH assets	Mudharib fees as a %age of IAH assets	Profit paid as a %age of IAH assets
HY ended June 2011	2.54	0.00	0.00	1.85	0.68
2010	4.03	(0.54)	(0.49)	1.28	4.04
2009	6.09	0.30	0.24	0.96	4.58
2008	7.07	0.34	0.26	1.60	4.87
2007	7.84	0.38	0.24	1.47	5.75

(Annualised rates)

Type of deposit	Period ended 30 June 2011	2010	2009	2008	2007
1 month Mudharaba <sup>[2]</sup>	2.53	3.66	4.00	4.80	6.30
3 months Mudharaba	4.38	4.13	4.94	5.25	5.20
6 months Mudharaba	4.53	3.38	5.30	5.13	5.15
12 months Mudharaba	4.98	4.94	5.79	5.40	5.30
VIP Mudharaba	3.59	4.35	4.20	4.52	5.09

<sup>[2]</sup> Includes saving account products

**Market bench mark rates:** The Bank refers to the group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to bench mark the rate of return on IAH.

## Khaleeji Commercial Bank BSC Risk and Capital Management Disclosures

### IAH account by type of assets

The following table summarises the movement in type of assets in which the IAH funds are invested and allocation among various type of assets for the period ended 30 June 2011:

Particulars	Opening allocation	Movement	Closing allocation	Proportion of total asset
<b>Balances with banks</b>	8,356	(61)	8,295	58%
<b>Placements with Financial Institutions</b>	74,959	(15,463)	59,496	100%
<b>Financing assets</b>				
Murabaha	75,796	(4,993)	70,803	49%
Wakala	20,392	4,767	25,159	100%
Istisna'a	987	(72)	915	100%
<b>Investment securities</b>				
Sukuk	17,561	(5)	17,556	100%
<b>Total</b>	<b>198,051</b>	<b>(15,827)</b>	<b>182,224</b>	

### 7.1 Restricted Investment Accounts (RIAs)

RIA Name	Details	Launch Date	Projected Returns	Return Frequency	Return Annualized				
					Period ended 30 June 2011	2010	2009	2008	2007
Al Hareth French Property Fund	An investment product designed to deliver attractive return from income producing properties in France .Approximate capital redemption of 30% was completed in April 2007 with a capital gain of 6% on the redeemed portion.	2005	9%	Annual	-	-	1.75 %	9.5%	9.5%
RIA-1 Safana	An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell. ), the Bank made an offer to buy back <BD 20,000 of each Depositors funds in RIA 1 at par. This offer was formalized in a letter to Depositors dated 25 May	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

	2011. A total of 74 of the 95 RIA 1 Depositors accepted the Offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 Depositors being fully exited from the RIA. As a result, total Depositors funds have reduced to BD 8.34 million.								
RIA 4 Janayen	A restricted investment product designed to invest in growth and income generating real estate assets in the GCC and MENA regions. To date RIA4 has made distributions and redemptions to depositors amounting to approximately 27.50% of depositors' initial capital. These distributed funds were in the form of yields amounting to ≈ 21.1% in addition to 6.4% redemption of capital (3.7% redemption affected during Q2 2011).	2007	44.33%	Quarterly	-	0.27%	9.62 %	10.65 %	-
RIA-5 North Gate	A restricted investment product which owns a 6.0% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million sq. meters (located in Al Hidd, Muharraq). The mixed-use plot will be sold to end-users subsequent to the completion of infrastructure works.	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-
RIA-6 Locata	A Restricted Mudharabah product which entitles the investors beneficial ownership of 25% equity share capital of Locata Corporation Pty Ltd., a company incorporated in Australia. The Company has invented a new and patented wireless radiolocation technology and shall use this funding to scale up its production capacity,	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-

**Khaleeji Commercial Bank BSC**  
**Risk and Capital Management Disclosures**

---

	sales/marketing channels and further product enhancement capabilities.								
--	--	--	--	--	--	--	--	--	--